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CIRCULAR
April 11, 2013

SELF-CERTIFICATION

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. ARTICLE 6651 “POSITION LIMITS FOR OPTIONS”

The Rules and Policies Committee of Bourse de Montreal Inc. (the Bourse) has approved amendments to article 6651 of the Rules of the Bourse concerning position limits applicable to options. These changes have been self-certified in accordance with the self-certification process as established in the Derivatives Act (RSQ, chapter I-14.01) and will come into force tomorrow April 12, 2013.

Nature of regulatory changes implemented

The purpose of the amendments made to article 6651 of the Rules of the Bourse regarding position limits applicable to options is to increase these limits so that they now correspond with those in place in the United States with respect to stock options.

The table below shows the changes in these limits:

Volumes and outstanding securities criteria	Article 6651 paragraph B)	Former Position Limits	New Position Limits
If the underlying security does not satisfy any of the criteria specified below	subparagraph 1.a)	13,500	25,000
6 months volume of at least 20 million or 6 months volume of at least 15 million and at least 40 million outstanding securities	subparagraph 1.b)	22,500	50,000
6 months volume of at least 40 million or 6 months volume of at least 30 million and at least 120 million outstanding securities	subparagraph 1.c)	31,500	75,000
6 months volume of at least 80 million or 6 months volume of at least 60 million and at least 240 million outstanding securities	subparagraph 1.d)	60,000	200,000
6 months volume of at least 100 million or 6 months volume of at least 75 million and at least 300 million outstanding securities	subparagraph 1.e)	75,000	250,000

Circular no.: 070-2013

It is to be noted that the traded volumes and numbers of outstanding securities criteria remain unchanged. It is also the case for the position reporting thresholds which are set out in article 14102 of the Rules of the Bourse.

Housekeeping changes were also made to article 6651. The main amendment of that type was made to clarify that position limits referred to in the subparagraphs of article 6651 mentioned in the table above apply not only to equity options, but also to options on exchange-traded funds and options on income trust units. With regard to options on the *iShares S&P/TSX 60 Index Fund* (XIU) Exchange Traded Fund, the position limit remains unchanged at 300,000 contracts.

Comments received

The regulatory amendments discussed in this circular were subjected to a request for comments published by the Bourse on December 20, 2011 (Circular 186-2011). Following the publication of this circular, the Bourse has received only one letter of comment. This letter just mentioned that the commenter was supporting the Bourse's proposal to harmonize its options position limits with those in place in the United States.

For more information, please contact Mr. Frank Barillaro, Director, Market Analysis and Project Management, Regulatory Division, at 514-871-3595 or by e-mail at fbarillaro@m-x.ca.

Jacques Tanguay
Vice President, Regulatory Division

RULE SIX

TRADING

C. OPTIONS

Section 6651 - 6670
Limits and Restrictions

6651 Position Limits for options

(06.08.86, 19.05.87, 08.09.89, 06.08.90, 20.03.91, 10.11.92, 07.04.94, 08.07.99, 07.09.99, 11.02.00, 28.01.02, 26.09.05, 20.05.10, 25.06.12, 12.04.13)

- A) Except as provided in paragraph D) of this article, no approved participant or restricted trading permit holder shall make for any account in which it has an interest, or for the account of any client, an options opening transaction if the approved participant or the restricted trading permit holder has reason to believe that as a result of such transaction the approved participant or its client, or the restricted trading permit holder would, acting alone or in concert with others, directly or indirectly, hold, control or be obligated with respect to an options position on the same side of the market relating to the same underlying interest (whether long or short) in excess of the options position limits established by the Bourse.
- B) Except otherwise indicated, the applicable position limits for options are as follows:
1. Options on ~~S~~stocks, exchange-traded funds or income trust index participation units options
 - a) 25,000~~13,500~~ contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the is present article;
 - b) 50,000~~22,500~~ contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit interest totals at least 20 million shares or units, or the most recent interlisted six-month trading volume of transactions on the underlying interest totals at least 15 million shares or units of the underlying interest and at least 40 million shares or units of this underlying interest are currently outstanding;
 - c) 75,000~~31,500~~ contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit interest totals at least 40 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares or units of the underlying interest and at least 120 million shares or units of this underlying interest are currently outstanding.
 - d) 200,000~~60,000~~ contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit interest totals at least 80 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares or units of the underlying interest and at least 240 million shares or units of this underlying interest are currently outstanding.

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- e) ~~250,000~~^{75,000} contracts, where either the most recent interlisted six-month trading volume ~~of transactions on~~ the underlying ~~stock, exchange-traded fund or income trust unit~~^{interest} totals at least 100 million shares ~~or units of the underlying interest~~; or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares ~~or units of the underlying interest~~ and at least 300 million shares ~~or units of this underlying interest~~ are currently outstanding.
- f) 300,000 contracts for options on the following ~~exchange-traded funds~~^{index participation units}:
 - units of the iShares S&P/TSX 60 Index Fund (XIU).

2. Debt options

8,000 contracts;

3. Index options

500,000 contracts;

4. Options on futures

The number of contracts established as the position limits for the underlying futures contract.

For the purpose of this article, options contract positions are aggregated with the underlying futures contract positions. For aggregation purposes, the futures equivalent of one in-the-money option contract is one futures contract and the futures equivalent of one at-the-money or out-of-the-money option contract is half a futures contract.

5. Sponsored options

The position limits described above apply to sponsored options. However, these position limits must be adjusted by using an equivalent unit of trading.

When the underlying interest is traded on a market other than the Bourse, the position limits of this market apply to sponsored options by using an equivalent unit of trading.

6. Currency options

40,000 contracts when the trading unit is 10,000 units of foreign currency. The limit will be adjusted to obtain the same notional amount if the trading unit is amended or if the Bourse introduces new trading units.

C) For the purpose of this article:

1. calls written, puts held and short underlying interest are on the same side of the market and puts written, calls held and long underlying interest are on the same side of the market;
2. the account of ~~an individual member or of the holder of~~ a restricted trading permit ~~holder~~ will not be counted with that of his clearing ~~member~~^{broker} unless the clearing ~~broker~~^{member} has an interest in the account;

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3. the Exchange-Bourse may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Exchange-Bourse and reasonable notice shall be given of each new position limit.

D) Conversions, reverse conversions, long and short hedges

1. For the purposes of this article the following defined hedges are approved by the Exchange:
 - a) conversion: where an opening long put transaction in any option is entirely offset by an opening short call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a long position in the underlying interest of the option;
 - b) reverse conversion: where an opening short put transaction in any option is entirely offset by an opening long call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a short position in the underlying interest of the option;
 - c) short hedge: where an opening long call transaction or an opening short put transaction in any option is entirely offset by a short position in the underlying interest of the option;
 - d) long hedge: where an opening short call transaction or an opening long put transaction in any option is entirely offset by a long position in the underlying interest of the option.
2. In addition to the options position limits set out in paragraph B), any one account may hold an amount not exceeding the applicable paragraph B) limit of any combination of the approved hedge positions defined in sub-paragraphs D) 1. a) to D) 1. d), inclusive.
3. For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph D) 1. a) and b), such limits shall apply as if calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

E) Exemption

As described in Policy C-1, a member may file with the Exchange an application to obtain on behalf of a bona fide hedger an exemption from the position limits prescribed in this article. The application must be filed on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the member shall reduce the position below the prescribed limit within the period set by the Exchange. The Exchange may modify any exemption which has been previously granted. A bona fide hedger may also under certain circumstances file directly with the Exchange, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Exchange.

RULE SIX

TRADING

C. OPTIONS

**Section 6651 - 6670
Limits and Restrictions**

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- A) Except as provided in paragraph D) of this article, no approved participant or restricted trading permit holder shall make for any account in which it has an interest, or for the account of any client, an options transaction if the approved participant or the restricted trading permit holder has reason to believe that as a result of such transaction the approved participant or its client, or the restricted trading permit holder would, acting alone or in concert with others, directly or indirectly, hold, control or be obligated with respect to an options position on the same side of the market relating to the same underlying interest (whether long or short) in excess of the options position limits established by the Bourse.
- B) Except otherwise indicated, the applicable position limits for options are as follows:
1. Options on stocks, exchange-traded funds or income trust units
 - a) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the present article;
 - b) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 20 million shares or units, or the most recent interlisted six-month trading volume of transactions totals at least 15 million shares or units of the underlying interest and at least 40 million shares or units of this underlying interest are currently outstanding;
 - c) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 40 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares or units of the underlying interest and at least 120 million shares or units of this underlying interest are currently outstanding.
 - d) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 80 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares or units of the underlying interest and at least 240 million shares or units of this underlying interest are currently outstanding.

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- e) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 100 million shares or units of the underlying interest or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares or units of the underlying interest and at least 300 million shares or units of this underlying interest are currently outstanding.
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C) For the purpose of this article:

- 1. calls written, puts held and short underlying interest are on the same side of the market and puts written, calls held and long underlying interest are on the same side of the market;
- 2. the account of a restricted trading permit holder will not be counted with that of his clearing broker unless the clearing broker has an interest in the account;

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3. the Bourse may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Bourse and reasonable notice shall be given of each new position limit.

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 - b) reverse conversion: where an opening short put transaction in any option is entirely offset by an opening long call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a short position in the underlying interest of the option;
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3. For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph D) 1. a) and b), such limits shall apply as if calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

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